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C O N F I D E N T I A L SECTION 01 OF 05 TOKYO 002790

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SUBJECT: JAPAN-PAKISTAN RELATIONS: SLOWLY WARMING

REF: 06 STATE 187841

Classified By: Charge d'Affaires Joe Donovan for reasons 1.4(b) and (d)

¶1. (C) SUMMARY: Japan-Pakistan relations appear to be slowly warming, after having suffered a breach following Pakistan's detonation of a nuclear device in 1998. Japan's overriding concern regarding Pakistan is to maintain stability in the South Asia region and, therefore, to help keep it a moderate Islamic country, rather than to see it slip under the sway of radical Islam, according to MOFA Southwest Asia Division Principal Deputy Director Masaki Ishikawa. Japan recognizes that Pakistan is facing a severe fight against terrorism, especially on its border with Afghanistan. Because Pakistan has a large population, growing economy, and strategic geographic location, it is an important counter against the negative influence of Islamic extremism flowing out of Afghanistan. To help assure stability in Pakistan, Japan is slowly enhancing political, economic, military, and cultural ties. Tokyo resumed Official Development Assistance (ODA) to Pakistan in 2005 and indications are that the amount of this support will rise significantly in the next few years. In addition to fostering stability in the South Asia region, Japan may also be motivated to improve and increase ties with Pakistan by a sense of competition with China. Nevertheless, despite its warming relations with Pakistan, Japan's main focus in South Asia will be enhancing ties with India. Japanese police keep tabs on Japan-resident Pakistanis, the second largest group of Moslems in Japan, for signs of Islamic extremism or involvement in crime. END SUMMARY.

POLITICAL RELATIONS

¶2. (C) In the past, Japan has traditionally viewed relations with Pakistan as connected with India, Ishikawa told Embassy Tokyo political officer. But with Japan's growing interest in enhancing relations with India, it has "dehyphenated" India and Pakistan. This will probably not go over well in

Islamabad. Pakistani Embassy Political Counselor Asghar Ali Golo told Embassy Tokyo that Pakistan is looking forward to a possible visit by Prime Minister Abe later this year, noting that normally when a Japanese Prime Minister visits New Delhi, he always stops in Islamabad as well. We have been hearing for some time that Abe is planning to visit India, most likely in August, but have heard nothing from anyone concerning a side trip at the same time to Pakistan. Recent high-level visits between Japan and Pakistan have included an April 2005 visit to Islamabad by former Prime Minister Koizumi, and a January 2006 visit by Foreign Minister Aso. Pakistani Prime Minister Aziz last visited Tokyo in 2005.

13. (C) According to Golo, Pakistan-Japan relations had been close until Pakistan detonated a nuclear device in 1998. The test jolted the relationship and led Japan to suspend aid programs. Japan was also concerned by the military takeover in Pakistan that followed the nuclear test. However, relations have gradually improved. In 2005, Japan announced new yen loans, and the levels of assistance have been increasing ever since. Pakistan is also interested in working with Japan to help develop the Central Asia region and to bring stability to Afghanistan, Golo said. He speculated foreign investment in Pakistan will increase three-fold when Afghanistan becomes stable and there are reliable transportation networks from Central Asia.

14. (C) Ishikawa and Golo both confirmed press reports that Foreign Minister Aso had met with his counterpart, Foreign Minister Kasuri, on the sidelines of the ASEM meeting May 28-29 in Hamburg, but both agreed that nothing substantive had come from the meeting. Aso reportedly reaffirmed that

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Pakistan is important to Japan, and Kasuri raised the possibility of receiving Japanese assistance to establish agro-industrial parks similar to the ones Japan is contemplating with Palestinians in the West Bank. Ishikawa said nothing was agreed upon and he does not expect anything to come from this discussion.

ECONOMIC ASSISTANCE

15. (U) The bilateral relationship is characterized primarily by economic assistance flowing from Japan to Pakistan. According to MOFA documents, the goal of Japan's ODA program to Pakistan is to contribute to consolidating peace and stability in Asia and the Pakistan region by assisting the steady development of Pakistan, "which is in the process of developing moderate and modern Islam and playing a crucial role as a front-line state in the fight against terrorism." Japan first extended ODA to Pakistan in 1954 by providing technical training in line with the Colombo Plan. The first yen loan was extended in 1961. However, following Pakistan's nuclear test in 1998, Japan discontinued yen loans and grant aid. These economic sanctions were officially discontinued in October 2001, and in 2005 Japan announced two new yen loan projects. Yen loan assistance to Pakistan between 1961 and 2005 amounted to approximately 857 billion yen. Yen loans for FY2005 amounted to 27.6 billion yen. In FY2006 the figure was 23.2 billion yen.

16. (C) Since Pakistan is on the frontier of the fight against terrorism, Japan is considering "significantly" increasing this amount next year, according to MOFA. While no concrete figures are yet available, MOFA's First Country Planning Division director recently told Embassy Tokyo's AID Counselor that Japan would increase the amount of yen loans next year to 35 or even 50 billion yen. (NOTE: Another indication that Japan is actively considering increased amounts of support to Pakistan is the visit to the Department by Japan Bank for International Cooperation officials in November 2006 to conduct due diligence inquiries on Pakistan, reftel. END NOTE.)

¶7. (U) The three priority goals for Japan's country assistance program for Pakistan were formulated in February 2005. They are:

- securing human security and human development, mainly in the areas of education and health;
- helping to develop a sound market economy by assisting the agricultural sector, encouraging the diversification of industries, and developing economic infrastructure;
- achieving balanced regional socio-economic development by enhancing the economy in Karachi, Peshawar, and elsewhere within the country.

¶8. (U) Japan has also supported the development of infrastructure in Pakistan through yen loans in the transportation and energy sectors. Tokyo is funding construction of 92 percent of the Indus Highway Projects with yen loans amounting to 67.1 billion yen, and has also extended yen loans worth 12.7 billion yen to construct the Kohat Tunnel and access roads. In addition, in January 2006, notes were signed for 11.2 billion yen (\$100 million) for earthquake disaster relief and economic reconstruction.

¶9. (U) Japanese grant aid to Pakistan was first extended in 1970, and through 2006 amounted to 207.5 billion yen. In FY2005 the amount granted was slightly over 10 billion yen, which went to projects to improve the water supply system in Faisalabad, to rehabilitate gates at the Taunsa Barrage, to

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improve the flood forecast warning system in the Lai Nullah Basin, to establish an environmental monitoring system, to help renovate the Islamabad Children's Hospital, to support the eradication of poliomyelitis, to repair the Kararo-Wadh section of the national highway, and to help enhance the training capabilities of the Construction Machinery Training Institute.

¶10. (C) Japan's efforts to provide assistance in the Federally Administered Tribal Areas (FATA) has been slowed, explained Ishikawa, by security concerns that make it too dangerous to dispatch Japanese workers or aid administrators to the areas in question. Japan has committed to build 65 schools but the pace has been slow, and so far only 12 have been completed or worked on. Golo concurred that Japanese progress on these projects has not been as expected, but expressed understanding for Japan's security concerns. He reported the Pakistani Ambassador had recently met with MOFA International Cooperation Bureau Director General Koro Bessho to assure him Pakistan will provide the necessary security for Japanese officials working in the FATA region. Prime Minister Abe discussed the FATA projects with President Bush when the two met in April, confirmed Ishikawa, and following that meeting Abe has been giving consideration to other possible assistance programs for the FATA.

TRADE RELATIONS

¶11. (C) Trade volume from Japan to Pakistan is also trending up, according to Japanese government figures. In 2000, Japanese exports to Pakistan amounted to 65.23 billion yen. This figure had risen to 166.88 billion yen by the end of 2005. In FY2006, Japan to Pakistan trade was 195 billion yen (USD 1.6 billion), while Pakistan to Japan trade amounted to 21 billion yen (USD 168 million.) Major goods sold to Pakistan include machinery, automobiles and auto parts, and chemicals. In contrast, Pakistani exports to Japan have been decreasing, from 27.06 billion yen in 2000 to 15.7 billion yen in 2005. Major Pakistani products sold in Japan include cotton yarn, leather products, and fish and shellfish. Despite these modest figures, Ishikawa said Japan believes there is good potential for growth in Pakistan: their per

capita GDP is larger than India's and the country has good manufacturing capabilities, making it potentially attractive to Japanese investors. That said, Ishikawa again insinuated that Japan's emphasis on increasing trade and investment in the South Asia region is on India.

¶12. (SBU) Press reports indicate the third "Pakistan-Japan Joint Public and Private Dialogues" were held last January in Karachi and that the message delivered to the Japanese delegation by Pakistani Minister of Commerce Hamayun Akhtar Khan hinted that if Japan doesn't move quickly to consider negotiating a Free Trade Agreement, it may find itself losing market share to the Chinese, especially in the auto parts and machinery fields.

¶13. (C) Both Ishikawa and Golo confirmed press reports that their two countries are close to completing negotiations on updating their bilateral convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes which was originally signed in 1959. The updated agreement is said to contain extensive revisions, modernizing the regulations based on the international model of the Income Tax Treaty. It also revises the taxation formula for business income and the limit of withholding tax rates imposed on income, and clarifies the limit of withholding tax rates imposed on dividends, interest and royalties paid between the two countries. The agreement has yet to be signed, pending final negotiations.

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MILITARY RELATIONS

¶14. (SBU) Pakistan and Japan are also taking tentative steps to increase their military-to-military relations, according to Golo. Japanese Maritime Self Defense Force supply vessels provide fuel and water to Pakistani naval vessels in the Indian Ocean operating in support of Operation Enduring Freedom, and Golo reported fairly recent Vice Chief of Staff level visits to Tokyo by the heads of Pakistan's army and air force. He said he hopes a naval Vice Chief of Staff visit will follow.

¶15. (SBU) Unfortunately, a recent visit by two Pakistani warships to Tokyo - the first such visit in 24 years - was marred by a report that eleven Pakistani sailors apparently jumped ship and disappeared. In addition, the Japanese press reported that one of the two ships had discharged a small amount of water contaminated with oil and sewage into Tokyo Bay. Apparently the spill was minor and was quickly cleaned up, but the Japanese are hyper-sensitive to such incidents and this did not help the overall atmospherics of the visit. The two Pakistani ships involved were the PNS Moawin and the PNS Babur, a destroyer and supply ship. The Japanese Coast Guard expressed seeming indifference about the visit and told Assistant Naval Attache they are more interested in enhancing ties with the Indian Navy.

CULTURAL RELATIONS

¶16. (C) Cultural ties between Japan and Pakistan are quite modest. However, a sizable Pakistani community resides in Japan, and Pakistan International Airlines (PIA) operates two flights a week between Japan and Pakistan. Many of the Pakistanis who live in Japan are engaged in the used car business, selling automobiles to Russia and the Middle East. They also constitute the second largest segment of the Moslem community in Japan, after Indonesia. Ishikawa said the Pakistanis living in Japan create very few problems for authorities and that their presence is not a factor in Japan's policy formulation process. (NOTE: According to Embassy Legal Attache, Japanese law enforcement authorities

do keep tabs on the Pakistani community and are watching for any signs of radical Islamic trends, as well as possible connections to organized crime. Money laundering and immigration violations are also a priority for the Japanese police in monitoring Pakistanis. END NOTE.) Press reports indicate Pakistan's Minister of Labor, Manpower and Overseas Pakistanis Ghulam Sarwar Khan visited Tokyo last May and met with Parliamentarians to encourage Japan to accept more Pakistani workers.

¶17. (SBU) According to press reports, Japan's Ambassador in Islamabad, Seiji Kojima, recently made remarks encouraging Pakistani tour operators to target "Japanese senior citizens, adventure-loving youngsters, and cultural enthusiasts" in their promotion campaigns. However, attempts by Pakistan to increase the number of Japanese tourists to Pakistan seem lackluster. A recent press conference and reception hosted by the Pakistan Association of Japan, designed to promote tourism in Pakistan, was poorly attended and the question and answer period was dominated by complaints from Japanese tour operators concerning unexpected complications and other travel horror stories experienced by their clients in Pakistan. Officials from PIA, the Tourism Development Corporation of Punjab, and the Pakistani Embassy attempted to address these concerns but the impression left was that tourism promotion efforts are poorly organized and that

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Japanese travel agents remain skeptical about recommending to their clients that they visit Pakistan.

¶18. (C) In the field of education, Golo explained that Pakistan is interested in Japanese assistance in training semi-skilled workers. In addition, Pakistan has proposed that Japan should support one of the new Science and Technology Universities it plans to open. Pakistan's plan is to open nine of these universities, each of which would be staffed by faculties from different countries. This would enable Pakistani students to learn from experts from a variety of developed nations. Golo said Japan is a bit confused by this project as it doesn't fit their normal aid template. Instead of being asked to fund the project, Japan is only being asked to provide the faculty. Apparently, Japanese professors are hesitant to participate without guarantees from the Japanese government. Pakistan will continue to discuss this proposal with the Japanese and hopes it will come to fruition.

COMMENT

¶19. (C) Japan's interest in enhancing its relations with Pakistan are on the rise. The primary reason for this is to help promote the stability of the South and Central Asia regions. As for secondary reasons, whether this is because Japan sees real economic opportunity there, or whether perhaps Tokyo is motivated to counter perceived inroads into Pakistan by China is unclear. Either way, we expect Japan's interests in South Asia to remain focused primarily on India.
DONOVAN